HUMBOLDT-UNIVERSITÄT ZU BERLIN
Fachgebiet Internationaler Agrarhandel und Entwicklung

Public Lecture

Trade Wars and Regional Integration

Prof. Karen Thierfelder, US Naval Academy (USNA)
Based on a paper with Sherman Robinson, Peterson Institute for International Economics (PIIE)

Tuesday, June 25 2019, 17:00 - 18:30
Lecture Hall 3, Hannoversche Straße 27, Haus 12, first floor

US trade policy in the Trump administration is protectionist, raising tariffs outside of WTO rules, threatening trade wars, withdrawing from existing trade agreements, and negotiating new bilateral trade deals rather than free trade agreements. The reaction of the rest of the world has been to support the WTO rules-based trading system and to pursue new and expanded regional trade agreements that do not include the US. While some regions have retaliated against the US, none have engaged in a global trade war. The result is likely to be US disengagement from the world trading system, with countries diverting trade around the US.

We use a global computable general equilibrium (CGE) model to analyze changes in trade and production patterns that may result from US protectionist policies. We consider several scenarios of US policies and response by trading partners. We find that adjustment to US disengagement is feasible—the changes in trade shares as countries divert trade are modest and achievable, with very little impact on the volume of global trade. If the US engages in trade wars with major partners, the best response for other trade partners is to sit out the trade war, accept higher US tariffs, and gain markets from global trade diversion around the US. In a trade war between the US and its major partners, prices in world markets change and turn against the US. Prices of US exports fall relative to import prices, reflecting its smaller share of global trade and hence market power. In this environment where there are policy wedges between prices of imports and exports, standard measures of the real exchange rate no longer provide a good summary measure of what is driving domestic commodity markets—the large changes in relative prices are hidden by any single aggregate measure.

The US loses in all trade-war scenarios, with welfare losses arising from changes in world prices and from efficiency losses due to market distortions and adverse trade-productivity links. Because of indirect effects, widespread tariffs fail to benefit the protected sectors, reducing both imports and exports and shifting labor and capital to nontraded sectors—a fallacy of composition in a widespread protectionist trade policy.